CHINA EDUCATION ALLIANCE INC.
Form 10QSB
May 15, 2006

United States
Securities and Exchange Commission
Washington, D.C. 20549
Form 10-QSB

x QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2006

o TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from ______________ to ________________

Commission File Number: 333-101167

China Education Alliance, Inc.
(Exact name of small business issuer as specified in its charter)

North Carolina (State or other jurisdiction of incorporation or organization)	56-2012361 (I.R.S. Employer Identification No.)

80 Heng Shan Rd. Kun Lun Shopping Mall
Harbin, P.R. China 150090

(Address of principal executive offices)

001-86-451-8233-5794
(Issuer's telephone number)

N/A
(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes o No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes o No x

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes o No o

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity as of the latest practicable date: 57,915,000 shares as of May 12, 2006

Transitional Small Business Disclosure Format (check one): Yes o No x

---

CHINA EDUCATION ALLIANCE, INC.
INDEX

PART I. FINANCIAL INFORMATION

CHINA EDUCATION ALLIANCE, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheet
as of March 31, 2006
(Expressed in US dollars)
(Unaudited)

		3/31/06
ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 5)	$	1,546,659
Inventories (Note 6)		2,790
Prepaid expense (Note 3)		113,684
Other receivable (Note 3)		8,315
Total Current Assets		1,671,448
Property and Equipment		
Fixed Assets, Net of Accumulated Depreciation (Note 7)		3,909,037
Total Property and Equipment		3,909,037
Total Assets	$	5,580,485
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts Payable and Accrued Expenses (Note 8)	$	22,060
Advances on Accounts (Note 9)		533,278
Loan from Shareholder (Note 15)		177,358
Wages Payable		5,662
Welfare Payable		7,796
Taxes Payable (Note 10)		25,797
Total Current Liabilities		771,951
Total Liabilities		771,951
Shareholders' Equity		
Registered Capital		57,915
Capital Reserve		2,407,969
Currency Conversion Adjustment (Note 3)		69,233
Retained Earnings		2,273,417
Total Shareholders' Equity		4,808,534
Total Liabilities and Shareholders' Equity	$	5,580,485

The accompanying notes are an integral part of these financial statements.

CHINA EDUCATION ALLIANCE, INC. AND SUBSIDIARIES
Condensed Consolidated Statement of Operations
For the Three Months Ended March 31, 2006
(Expressed in US dollars)
(Unaudited)

	For the Three Months Ended March 31, 2006		For the Three Months Ended March 31, 2005	
REVENUES				
Sales and Tuition (Note 3)	$	1,347,403	$	78,617
Less: Cost of Good Sold		493,751		25,638
Gross Profit		853,652		52,979
OPERATING EXPENSES				
Operating Expenses		114,023		45,654
Administrative Expenses		60,573		-
Total Operating Expenses		174,596		45,654
OTHER EXPENSES (INCOME)				
Finance Costs (Income)		(896)		2,732
Total Other Expenses (Income)		(896)		2,732
Net Income before Income Taxes		679,952		4,593
Less: Provision for Income Taxes (Note 11)		-		3,613
Net Income	$	679,952	$	980
Earnings per share attributed to China Education Alliance common stock:				
Basic income per share		0.0123		
Diluted income per share		0.0123		
Basic weighted average shares outstanding		55,364,375		57,915,000

The accompanying notes are an integral part of these financial statements.

Page 2

CHINA EDUCATION ALLIANCE, INC. AND SUBSIDIARIES
Condensed Consolidated Statement of Cash Flow
For the Three Months Ended March 31, 2006
(Expressed in US dollars)
(Unaudited)

Cash flows from operating activities:		
Net income	$	679,952
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation		81,128
Changes in assets and liabilities -		
Inventories		(2,269)
Prepaid Expense		(45,506)
Other receivable		(52)
Accounts payable and accrued expenses		(54,795)
Advance on account		236,153
Wages payable		(191)
Welfare payable		7,420
Taxes payable		1,348
Net cash provided by operating activities		903,188
Cash flows from investing activities:		
Purchases/(transfer) of fixed assets		(63,552)
Net cash used by investing activities		(63,552)
Cash flows from financing activities:		
Loan from shareholders		40,346
Net cash provided by financing activities		40,346
Currency Conversion adjustments		69,233
Net increase in cash		949,215
Cash at beginning of year		597,444
Cash at end of year	$	1,546,659

The accompanying notes are an integral part of these financial statements.

CHINA EDUCATION ALLIANCE, INC. AND SUBSIDIARIES
Condensed Consolidated Statement of Stockholders' Equity
For the Three Months Ended March 31, 2006
(Expressed in US dollars)
(Unaudited)

	Registered Capital	*Additional Paid-in Capital*	*Currency Conversion Adjustment*	*Capital Reserve*	*Retained Earnings*	*Total shareholders' equity*
Balance at December 31, 2005	$ 57,915	$ 2,407,969	$ 19,067	$ 88,757	$ 1,504,708	$ 4,078,416
Net income for the three months ended March 31, 2006					679,952	679,952
Currency Conversion Adjustment			50,166			50,166
Transfer to Capital Reserve				68,457	(68,457)	
Balance at March 31, 2006	$ 57,915	$ 2,407,969	$ 69,233	$ 157,214	$ 2,116,203	$ 4,808,534

The accompanying notes are an integral part of these financial statements.

China Education Alliance, Inc. and Subsidiaries
Notes to the Condensed Consolidated Financial Statements
March 31, 2006
(Expressed in US Dollars)
Unaudited

1. Description of Business

Nature of organization

China Education Alliance, Inc. (CEDA), formerly known as ABC Realty Co., was originally organized under the laws of the State of North Carolina on December 2, 1996. The main function for the ABC Realty was to engage in residential real estate transactions as a broker or agent. On September 15, 2004, ABC Realty was reorganized pursuant to the Plan of Exchange to acquire Harbin Zhong He Li Da Education Technology, Inc. (“ZHLD”), a Corporation formed on August 9, 2004 in the city of Harbin of Heilongjiang Province, the People’s Republic of China, with an authorized capital of $60,386 (RMB500,000).

On September 15, 2004, ABC Realty Co. executed a Plan of Exchange with ZHLD, and Duane C. Bennett, Chairman of ABC Realty Co., pursuant to which ZHLD exchanged all of its registered capital of $60,386 for 55,000,000 shares, or approximately 95% of the common stock of China Education Alliance, Inc. On November 17, 2004, ABC Realty Co. changed its name to China Education Alliance, Inc. On December 13, 2004, China Education Alliance, Inc. consummated the Plan of Exchange with ZHLD. As a result of the Plan of Exchange, the transaction was treated for accounting purposes as a capital transaction and a recapitalization by the accounting acquirer, ZHLD and as reorganization by the accounting acquired, China Education Alliance, Inc.

China Education Alliance, Inc. is only a holding company, it has no revenues. The Company carries its business mainly through its wholly owned subsidiaries, ZHLD and the Zhonghe Education Training Center in the business of online education and training center in China.

ZHLD is a technology company engaged in the online education industry in China. Its mission is to impel the distance learning development in China, to improve the efficiency and effectiveness of elementary education, higher education, vocational education, skill education, continuing education, and professional training programs, and to integrate with the international education system. As a multiplicative, comprehensive, and authoritative education frontrunner, the Company has firmly occupied its hegemonic position in the online education industry through its abundant teachers, rich teaching knowledge, and plentiful teaching achievements.

Heilongjiang Zhonghe Education Training Center (“ZHTC”) was registered in the People’s Republic of China on July 8, 2005 with a registered capital of $60,386, is the wholly owned subsidiary of ZHLD. ZHLD owns 99% of interest in the ZHTC with a *de minimis* number of 1% shares owned by present executive officer, Xi Qun Yu of ZHLD and ZHTC, as required by People’s Republic China’s Business Enterprise law.

China Education Alliance, Inc. and Subsidiaries
Notes to the Condensed Consolidated Financial Statements
March 31, 2006
(Expressed in US Dollars)
Unaudited

1. Description of Business (Continued)

The Company’s online education business has established leading positions in several high growth segments, including supplemental education and the test preparation for grades kindergarten through high school.

The Company’s products include on-line test preparation materials, teachers’ materials, study guides and audio recordings of popular classes. It is a full range professional education resource service provider. The business scope includes distance learning technology, education resource development, education project planning and promoting, teaching platform, and the class development and schedule, education information, and technical service. The products cover all education ranges, including pre-school education, elementary and middle school education, vocational education, continuing education, enterprise training program, intelligence authentication, agricultural labor education, education for the disabled, first time employment education, re-employment education, study abroad, education for the aged people.

The Company has formed several strategic alliances with the Chinese vocational education society, the government educated information center, the authentication training center, and other multitudinous government department and education department to enhance the influence of the Company, as well as its products and service provided.

The Company has carried out various level cooperation with over one thousand professors in their respective expertise fields, more than two thousand membership schools, school principals exceeding three thousand, and school teachers in excess of fifty thousand, as well as over one hundred news media and twenty scholarly research organizations.

2. Basis of Preparation of Financial Statements

The China Education Alliance is only a holding company; it has no revenues but only minor maintenance expenses. The functional currency for its subsidiaries is denominated in “Renminbi” (“RMB”) or “Yuan”. ZHLD and Zhonghe Education Training Center maintain its books and accounting records in Renminbi ("RMB"). It is the currency of the primary economic environment in which the entities operates, and in accordance with law and accounting requirements of People’s Republic of China law and accounting practices.

The financial statements have been prepared in order to present the consolidated financial position and consolidated results of operations in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) and are expressed in terms of US dollars (see paragraph “Foreign Currency Translation Methodology” below).

China Education Alliance, Inc. and Subsidiaries
Notes to the Condensed Consolidated Financial Statements
March 31, 2006
(Expressed in US Dollars)
Unaudited

2. Basis of Preparation of Financial Statements (Continued)

The accompanying financial statements differ from the financial statements used for statutory purposes in PRC in that they reflect certain adjustments, recorded on the entities' books, which are appropriate to present the financial position, results of operations and cash flows in accordance with US GAAP. The principal adjustments are related to revenue recognition, foreign currency translation, deferred taxation, consolidation, accounting for derivatives, and depreciation and valuation of property and equipment and intangible assets.

Principles of Consolidation - The consolidated financial statements include the accounts of the Company and its subsidiary, China Education Alliance, ZHLD, Zhonghe Education Training Center. All inter-company transactions and balances were eliminated.

3. Summary of Significant Accounting Policies

Use of estimates - The preparation of these financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affected the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of net sales and expenses during the reported periods.

Significant estimates included values and lives assigned to acquired intangible assets, reserves for customer returns and allowances, uncollectible accounts receivable, slow moving, obsolete and/or damaged inventory and stock option valuation. Actual results may differ from these estimates.

Cash and cash equivalents - The Company considers all highly liquid debt instruments purchased with maturity period of three months or less to be cash equivalents. The carrying amounts reported in the accompanying consolidated balance sheet for cash and cash equivalents approximate their fair value.

Inventories - inventories were accounted for using the first-in, first-out method and included freight-in, materials, packing materials, labor and overhead costs and were stated at the lower of cost or market, cost being determined by a moving weighted average. Provision is made for slow moving, obsolete and/or damaged inventory based on a periodic analysis of individual inventory items, including an evaluation of historical usage and/or movement, age, expiration date and general condition.

China Education Alliance, Inc. and Subsidiaries
Notes to the Condensed Consolidated Financial Statements
March 31, 2006
(Expressed in US Dollars)
Unaudited

3. Summary of Significant Accounting Policies (Continued)

Property and equipment - Property and equipment are stated at the historical cost, less accumulated depreciation. Depreciation on property, plant and equipment is provided using the straight-line method over the estimated useful lives of the assets after taking into account estimated residual value of 5% of cost or valuation for both financial and income tax reporting purposes as follows:

Buildings	20 years
Communication Equipments	10 years
Motor vehicles	5 years

Furniture, Fixtures, and Equipments 5 years

Expenditures for renewals and betterments were capitalized while repairs and maintenance costs are normally charged to the statement of operations in the year in which they are incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalized as an additional cost of the asset. Upon sale or disposal of an asset, the historical cost and related accumulated depreciation or amortization of such asset were removed from their respective accounts and any gain or loss was recorded in the Consolidated Statements of Operations.

Property and equipment are evaluated for impairment in value annually or whenever an event or change in circumstances indicates that the carrying values may not be recoverable. If such an event or change in circumstances occurs and potential impairment is indicated because the carrying values exceed the estimated future undiscounted cash flows of the asset, the Company would measure the impairment loss as the amount by which the carrying value of the asset exceeds its fair vale.

Foreign currency translation - These financial statements have been prepared in U.S. dollars. China Education Alliance is only a holding company; it has no revenues with minor expenses, except those related to its ownership interest in ZHLD and Zhonghe Education Training Center. The functional currency for the ZHLD and Zhonghe Education Training is denominated in “Renminbi” (“RMB”) or “Yuan”. ZHLD and Zhonghe Education Training maintain its books and accounting records in Renminbi ("RMB"). It is the currency of the primary economic environment in which the entities operates.

FASB Statement of Financial Accounting Standards No. 52, “Foreign Currency Translation” requires differentials to be calculated and allocated using the current rate method if the foreign entity’s functional and local currencies are the same. Non-monetary assets and liabilities are translated at historical exchange rates. Monetary assets and liabilities are translated at the exchange rates in effect at the end of the year. The income statement accounts are translated at average exchange rates.

China Education Alliance, Inc. and Subsidiaries
Notes to the Condensed Consolidated Financial Statements
March 31, 2006
(Expressed in US Dollars)
Unaudited

3. Summary of Significant Accounting Policies (Continued)

The conversion gains and losses are not recognized in the income statement under the functional currency approach. They are accumulated in a separate account in stockholders' equity (i.e., the cumulative foreign exchange translation adjustments account). This treatment is based on the FASB's view that translation gains or losses are not directly related to the foreign entities' operating cash flows. As a result, the Company recognized in equity the effect of currency translation in the amount of $69,233.

The official exchange rates as of March 31, 2005 and 2004, for one US dollar were 8.0167 RMB and 8.28 RMB, respectively.

Income recognition - Revenue is recognized in accordance with Staff Accounting Bulletin No. 104, Revenue Recognition, which states that revenue should be recognized when the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) the service has been rendered; (3) the selling price is fixed or determinable; and (4) collection of the resulting receivable is reasonably assured. The Company believes that these criteria are satisfied upon customers download prepaid debit card. Revenue is reduced by provisions for estimated returns and allowances, which are based on historical averages that have not varied significantly for the periods presented, as well as specific known claims, if any.

Prepaid debit cards allow our subscribers to make a predetermined monetary amount of download materials posted on our website. The Company new system is able to track usage of the debit card once the end user uses the debit cards for its service. At the time that the prepaid debit card is purchased, the receipt of cash is recorded as a subscriber prepayment. Revenues are recognized in the month when services are actually rendered. Unused value relating to debit cards is recognized as revenues when the prepaid debit card has expired.

Interest income is recognized when earned, taking into account the average principal amounts outstanding and the interest rates applicable

Prepayments Account-Prepaid expenses are primarily comprised of advance payments made for services to teachers for online materials and video.

Other Receivable - Other Receivable is prepaid account included advances to employees, that included cash prepaid to employees for their travel, entertainment and transportation expenditures.

Subscriber Prepayments -Amounts received in advance of services being provided to subscribers are deferred and not recognized as revenues until the related services have been provided to subscribers.

China Education Alliance, Inc. and Subsidiaries
Notes to the Condensed Consolidated Financial Statements
March 31, 2006
(Expressed in US Dollars)
Unaudited

3. Summary of Significant Accounting Policies (Continued)

Impairment of Long-Lived Assets - The Company periodically evaluates the recoverability of the carrying amount of its long-lived assets in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable, the Company compares the undiscounted net cash flows estimated to be generated by those assets to the carrying amount of those assets.

When these undiscounted cash flows are less than the carrying amounts of the assets, the Company will record impairment losses to write the asset down to fair value, measured by the discounted estimated net future cash flows expected to be generated from the assets. During the periods ended March 31, 2006 and 2005, no such impairments have occurred.

Advertising - The Company expensed advertising costs the first time the respective advertising took place. These costs were included in selling, general and administrative expenses. The total advertising expenses incurred for period ended March 31, 2006 was $0.

Income Taxes - Provision is made in the financial statements for taxation of profits in accordance with PRC legislation currently in force. The Company accounts for income taxes under the liability method in accordance with SFAS No. 109, "Accounting for Income Taxes". Under the liability method, deferred income taxes reflect the future tax consequences of temporary differences between the tax and financial statement basis of assets and liabilities and are measured using enacted tax rates applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in the tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided when it is more likely than not that some or all of the deferred tax assets will not be realized in the future. These evaluations are based on the expectations of future taxable income and reversals of the various taxable temporary differences.

Provision for The People's Republic of China enterprise income tax is calculated at the prevailing rate based on the estimated assessable profits less available tax relief for losses brought forward. As of March 31, 2006, The Company is still enjoying the income tax exemption suitable as foreign invested company.

Enterprise income tax

Under the Provisional Regulations of The People's Republic of China Concerning Income Tax on Enterprises promulgated by the State, income tax is payable by enterprises at a rate of 33% of their taxable income. Preferential tax treatment may, however, be granted pursuant to any law or regulations from time to time promulgated by the State Council.

China Education Alliance, Inc. and Subsidiaries
Notes to the Condensed Consolidated Financial Statements
March 31, 2006
(Expressed in US Dollars)
Unaudited

3. Summary of Significant Accounting Policies (Continued)

Enterprise income tax ("EIT") is provided on the basis of the statutory profit for financial reporting purposes, adjusted for income and expense items, which are not assessable or deductible for income tax purposes.

As a foreign investment Company, the Company is exempt from income tax in the first and second profit making years and allowed a 50% reduction in the third to fifth years. If a foreign investment enterprise, among above mentioned enterprises, has got a technologically advanced enterprise certificate, the enterprise income tax at a reduced rate of 10% can be extended for three more years after the expiration of the period of reduction of or exemption from enterprise income tax in accordance with the provision of the State.

Value added tax

The Provisional Regulations of The People's Republic of China Concerning Value Added Tax promulgated by the State Council came into effect on January 1, 1994. Under these regulations and the Implementing Rules of the Provisional Regulations of the PRC Concerning Value Added Tax, value added tax is imposed on goods sold in or imported into the PRC and on processing, repair and replacement services provided within the PRC.

Value added tax payable in The People's Republic of China is charged on an aggregated basis at a rate of 13% or 17% (depending on the type of goods involved) on the full price collected for the goods sold or, in the case of taxable services provided, at a rate of 17% on the charges for the taxable services provided, but excluding, in respect of both goods and services, any amount paid in respect of value added tax included in the price or charges, and less any deductible value added tax already paid by the taxpayer on purchases of goods and services in the same financial year.

Contingent liabilities and contingent assets - A contingent liability is a possible obligation hat arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognized as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Company.

China Education Alliance, Inc. and Subsidiaries
Notes to the Condensed Consolidated Financial Statements
March 31, 2006
(Expressed in US Dollars)
Unaudited

3. Summary of Significant Accounting Policies (Continued)

Contingent assets are not recognized but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognized.

Related companies - A related company is a company in which the director has beneficial interests in and in which the Company has significant influence.

Retirement benefit costs - According to The People's Republic of China regulations on pension, the Company contributes to a defined contribution retirement scheme organized by municipal government in the province in which the Company was registered and all qualified employees are eligible to participate in the scheme.

Contributions to the scheme are calculated at 23.5% of the employees' salaries above a fixed threshold amount and the employees contribute 2% to 8% while the Company contributes the balance contribution of 21.5% to 15.5%. The Company has no other material obligation for the payment of retirement benefits beyond the annual contributions under this scheme.

Fair value of financial instruments - The carrying amounts of certain financial instruments, including cash, accounts receivable, commercial notes receivable, other receivables, accounts payable, commercial notes payable, accrued expenses, and other payables approximate their fair values as at December 31, 2005 because of the relatively short-term maturity of these instruments.

Recent accounting pronouncements - In May 2003, the Financial Accounting Standards Board issued SFAS No. 150 *Accounti*ng for Certain Financial Instruments with Characteristics of both Liability and Equity. This standard establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. As of December 31, 2005, the Company had no financial instruments with these characteristics.

In January 2003, the FASB issued Interpretation No. 46 ("FIN 46") Consolidation of Variable Interest Entities, which addresses the consolidation of variable interest entities ("VIEs") by business enterprises that are the primary beneficiaries. A VIE is an entity that does not have sufficient equity investment at risk to permit it to finance its activities without additional subordinated financial support, or whose equity investors lack the characteristics of a controlling financial interest.

China Education Alliance, Inc. and Subsidiaries
Notes to the Condensed Consolidated Financial Statements
March 31, 2006
(Expressed in US Dollars)
Unaudited

3. Summary of Significant Accounting Policies (Continued)

Intangible assets are accounted for in accordance with Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"). Intangible assets with finite useful lives are amortized while intangible assets with indefinite useful lives are not amortized. As prescribed by SFAS 142, goodwill and intangible assets are tested periodically for impairment. The Company adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long- Lived Assets", effective January 1, 2002. Accordingly, the Company reviews its long-lived assets, including property and equipment and finite-lived intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. To determine recoverability of its long-lived assets, the Company evaluates the probability that future undiscounted net cash flows will be less than the carrying amount of the assets. Impairment costs, if any, are measured by comparing the carrying amount of the related assets to their fair value.

The primary beneficiary of a VIE is the enterprise that has the majority of the risks or rewards associated with the VIE. In December 2003, the FASB issued a revision to FIN 46, Interpretation No. 46R ("FIN 46R"), to clarify some of the provisions of FIN 46, and to defer certain entities from adopting until the end of the first interim or annual reporting period ending after March 15, 2004. Application of FIN 46R is required in financial statements of public entities that have interests in structures that are commonly referred to as special-purpose entities for periods ending after December 15, 2003. Application for all other types of VIEs is required in financial statements for periods ending after March 15, 2004. We believe we have no arrangements that would require the application of FIN 46R. We have no material off-balance sheet arrangements.

In April 2003, the Financial Accounting Standards Board issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. This statement amends and clarifies financial accounting and reporting for derivative instruments and for hedging actives under FASB No. 133, Accounting for Derivative Instruments and Hedging Activities. As of December 31, 2005, the Company had no derivative or hedging activities.

In November 2004, the FASB issued SFAS No. 151, Inventory Costs - an amendment of ARB No. 43, Chapter 4. SFAS No. 151 requires that certain abnormal costs associated with the manufacturing, freight, and handling costs associated with inventory be charged to current operations in the period in which they are incurred. The adoption of SFAS 151 had no impact on the Company's financial position, results of operations, or cash flows.

China Education Alliance, Inc. and Subsidiaries
Notes to the Condensed Consolidated Financial Statements
March 31, 2006
(Expressed in US Dollars)
Unaudited

3. Summary of Significant Accounting Policies (Continued)

In December 2004, the FASB issued SFAS No. 153, Exchanges of Non-monetary Assets-amendment of APB Opinion No. 29. SFAS No. 153 eliminates the exception to fair value for exchanges of similar productive assets and replaces it with a general exception for exchange transactions that do not have commercial substance, defined as transactions that are not expected to result in significant changes in the cash flows of the reporting entity. This statement is effective for exchanges of non-monetary assets occurring after June 15, 2005. Management believes adoption of this new statement will not have any significant effect on the Company’s financial condition or results of operations.

4. Concentrations of Business and Credit Risk

Substantially all of the Company’s bank accounts are in banks located in the PRC and are not covered by any type of protection similar to that provided by the FDIC on funds held in U.S banks.

The Company is operating in China, which may give rise to significant foreign currency risks from fluctuations and the degree of volatility of foreign exchange rates between U.S. dollars and the Chinese currency RMB.

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash and trade receivables, the balances of which are stated on the balance sheet. The Company places its cash in high credit quality financial institutions. Concentration of credit risk with respect to trade receivables are limited due to the Company's' large number of diverse customers in different locations in China. The Company does not require collateral or other security to support financial instruments subject to credit risk. 90 percent the age of the Company’s accounts receivable are less than 60 days.

China Education Alliance, Inc. and Subsidiaries
Notes to the Condensed Consolidated Financial Statements
March 31, 2006
(Expressed in US Dollars)
Unaudited

5. Cash and Cash Equivalents

As of March 31, 2006, Cash and cash equivalents consist of the following:

Cash and Cash Equivalents		**03/31/06**
Cash on Hand	$	1,760
Bank Deposits		1,544,899
Total Cash and Cash Equivalents	$	1,546,659

6. Inventories

The Company values its inventories at the lower of cost or market method. Inventories are accounted for using the first-in, first-out method. Inventories in the balance sheet include finished products.

As of March 31, 2006, Inventories consist of the following:

Inventory		**03/31/06**
Debit Cards & materials	$	2,790
Total Inventory	$	2,790

7. Property and Equipment

As of March 31, 2006, Property and Equipment consist of the following:

Property and Equipment		**03/31/06**
Buildings	$	2,766,787
Transportation Vehicles		113,390
Office Equipments		326,318
Machinery		1,030,638
Total Property and Equipment		4,237,133
Less: Accumulated Depreciation		(328,096)
Property and Equipment, Net	$	3,909,037

For the year ended March 31, 2006, depreciation expenses totals $ 81,128.

China Education Alliance, Inc. and Subsidiaries
Notes to the Condensed Consolidated Financial Statements
March 31, 2006
(Expressed in US Dollars)
Unaudited

8. Accounts Payable and Accrued Expense

As of March 31, 2006, the Accounts Payable and Accrued Expense consist of the following:

Accounts Payable and Accrued Expense		**03/31/06**
Accounts Payable and Accrued Expense	$	22,060
Wages & Welfare Benefit Payable		13,458
Other Current Liabilities		412
Total Accounts Payable and Accrued Exp	$	35,930

9. Advances on accounts

Advances on accounts include subscriber prepayments and education fee prepayments. Subscriber prepayments represents customer prepayments for the purchase of debit cards used to pay for the online downloading of education materials, including testing booklets, supplemental materials, and teaching video clips. The Company values the sales based on the actual occurrence of customer download. Therefore, the spare time between the purchase of debit cards and actual download is recorded under advances on accounts as deferred or unearned revenues to the Company. Once the download takes place, the amount is then transferred from advances on accounts to sales.

Education fee prepayments represent customer prepayments for the service provided by the Company of teaching and educating the customers for their specific need at their desired education level. There are various levels existed for the customers to choose the best one that fits their individual needs.

As of March 31, 2006, the Company has $533,278 on subscriber prepayment and prepayments instruction fees.

10. Taxes Payable

As of March 31, 2006, taxes payable consist of the following:

Taxes Payable		**03/31/06**
Value Added Tax	$	20,668
City Tax		4,819
Payroll Tax		310
Total Taxes Payable	$	25,797

China Education Alliance, Inc. and Subsidiaries
Notes to the Condensed Consolidated Financial Statements
March 31, 2006
(Expressed in US Dollars)
Unaudited

11. Income Taxes

The Company commences business in the PRC which is governed by the Income Tax Law of the PRC concerning Enterprises and various local income tax laws (the “Income Tax Laws"). Under the Income Tax Laws, enterprises generally are subject to an income tax at an effective rate of 33% (30% state income taxes plus 3% local income taxes) on income as reported in their statutory financial statements after appropriate tax adjustments unless the enterprise is located in specially designated regions or cities for which more favorable effective rates apply.

On September 15, 2004, China Education Alliance executed a Plan of Exchange with Zhong He Li Da Education Technology, Inc. (“ZHLD”). a corporation organized and existing under the laws of People’s Republic of China. ZHLD applied to be as a foreign invested company right after the merger, which business license has been approved as a foreign invested company on April 8, 2005. According to Chinese taxation policy, there is income tax exemption for first two profit making years and allowed a 50% reduction in the third to fifth years suitable to foreign invested company, advanced Technology Company or software Development Company. ZHLD is a Company under the category of all three. Therefore the Company enjoys this income tax exemption policy from April 8, 2005 the date approval as a foreign invested company. The formal documents about income tax exemption in advance issued on December 26, 2005. The Company is still enjoyed the income tax exempt status as of March 31, 2006.

12. Non-Distributable Reserves

As stipulated by the relevant laws and regulations applicable to China's foreign investment enterprises, the Company is required to make appropriations from net income as determined under accounting principles generally accepted in the PRC ("PRC GAAP") to non-distributable reserves which include a general reserve, an enterprises expansion reserve and employee welfare and bonus reserves. In accordance with the provisions of the Company’s Memorandum and Articles of Association, the Company is required to appropriate 10% of the net distributable profit after enterprises income tax to capital reserve.

The general reserve is used to offset future extraordinary losses as defined under PRC GAAP. The Company may, upon a resolution passed by the owners, convert the general reserve into capital. The employee welfare and bonus reserve is used for the collective welfare of the employees of the Company. The enterprise expansion reserve is used for the expansion of the Company and can be converted to capital subject to approval by the relevant authorities. The Company recorded reserves of capital of $68,457 on March 31, 2006. No such adjustments are required under accounting principles generally accepted in the United States of America in 2006.

China Education Alliance, Inc. and Subsidiaries
Notes to the Condensed Consolidated Financial Statements
March 31, 2006
(Expressed in US Dollars)
Unaudited

13. Employee Retirement Benefits and Post Retirement Benefits

According to the Heilongjiang Provincial regulations on State pension scheme, both employees and employers have to contribute pension. The pension contributions are ranging from 8% that was contributed by individuals (employees) and the Company is required to make contributions to the state retirement plan based on 20% of the employees' monthly basic salaries. Employees in the PRC are entitled to retirement benefits calculated with reference to their basic salaries on retirement and their length of service in accordance with a government managed benefits plan. The PRC government is responsible for the benefit liability to these retired employees.

14. Commitments and Contingencies

In the event that the Company succeeds in its business strategy, in all likelihood, competition will develop. The degree of competition cannot presently be ascertained. However, there can be no assurances that the Company will have the resources to compete effectively, especially to the extent that the market experiences rapid growth.

No government approvals are required to conduct the Company's principal operations, and the Company is not aware of any probable governmental regulation of our business sectors in the near future. Although management believes that the Company is in material compliance with the statutes, laws, rules and regulations of every jurisdiction in which it operates, no assurance can be given that the Company's compliance with the applicable statutes, laws, rules and regulations will not be challenged by governing authorities or private parties, or that such challenges will not lead to a material adverse effect on the Company's financial position, results of operations or cash flows.

The Company is not involved in any legal matters arising in the normal course of business. While incapable of estimation, in the opinion of the management, the individual regulatory and legal matters in which it might involve in the future are not expected to have a material adverse effect on the Company's financial position, results of operations or cash flows.

15. Loans from Shareholder

In connection with ABC Realty Merger (see Note 1), the shareholder, Xiqun Yu loaned the Company for $100,000 at a 9% interest rate originally signed in December 2004. Annual amount of interest is payable together with principal. In addition, Mr. Xiqun Yu paid for the December 31, 2006 annual audit fees and the other related travel and out of pocket expenses by his personal account. The total amount of shareholder loan outstanding as of March 31, 2005 is $177,358. The loan matures in December 2006. The loan from shareholder has the option to convert in two years to company common stock at the market price on the date the Company incurred the loan.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

(1) Caution Regarding Forward-Looking Information

When used in this report, the words "may," "will," "expect," "anticipate," "continue," "estimate," "project," "intend," and similar expressions are intended to identify forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 regarding events, conditions, and financial trends that may affect the Company's future plans of operations, business strategy, operating results, and financial position. Persons reviewing this report are cautioned that any forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties and that actual results may differ materially from those included within the forward-looking statements as a result of various factors. These risks and uncertainties, many of which are beyond our control, include (i) the sufficiency of existing capital resources and the Company's ability to raise additional capital to fund cash requirements for future operations; (ii) volatility of the stock market; and (iii) general economic conditions. Although the Company believes the expectations reflected in these forward-looking statements are reasonable, such expectations may prove to be incorrect.

General

China Education Alliance, Inc. was incorporated in the State of North Carolina on December 2, 1996 under the name of ABC Realty Co. to engage in residential real estate transactions as a broker or agent. The business the Company operates changed into education related internet high tech business in the People’s Republic of China after the Company acquired Zhong He Li Da Education Technology, Inc. (ZHLD), a technology company engaged in the online education industry in China, after the Company acquired ZHLD in December 2004.

The Company’s core business involves the following three main areas: large educational on line portal, education center, and educational software and media. CEDA has developed and growing income through all three business areas in the year of 2005. The Company owns the only website, www.edu-chn.com, in China having copyrights of examination materials for elementary schools, middles schools, and high schools for target users from age 7 through 18. The company also twice, in March and July, expanded the scope of the website to increase the contents and extend the e-business horizon in 2005. Electronic book and other education related media are also developed.

The education center not only provides middle and high school related classes but also occupational training. The center invites the most famous teachers to teach in the training center. Several phases of classes including exam preparation classes the center provided have successfully attracted very good responses in 2006.

Our 2006 objectives incude:

1. Strengthen its markets in Heilongjiang province.
2. Develop markets in Jilin and Liauning province.
3. Further improve web portal and on line business network.
4. Develop and expand classroom education through training centers.

Results of Operations

The Company achieved revenue from sales and tuition of $1,347,403 for the period ended March 31, 2006. Both the sales of debit cards are used to obtain educational materials posted on the Company's website and tuition from various classes provided by the training centers have made significant progress. The following table sets forth the percentage relationship of certain unaudited statement of income data to revenue for the periods indicated.

	March 31,2006	March 31, 2005

Sales and Tuition	$	1,347,403		$	78,617	
Cost of Good Sold	$	493,751		$	25,638	
Total Operating Expenses	$	174,596		$	45,654	
Net Income before Income Taxes	$	679,952	50%	$	4,593	6%

The cost of goods sold includes the costs for the debit cards, teaching material costs, e-business commissions, prelection costs, etc. The percent of cost of goods sold relative to the revenue remained about the same in the cost structure.

Operating expense includes staffing in support of the Company's website and education center, depreciation, professional services, advertisement, etc. The percentage of operating expenses relative to the revenue was 13%.

Net income before income taxes was 50% of the sales and tuition revenue. We believe this is a healthy profit margin amid our market expansion activities.

Liquidity and Capital Resources

Liquidity is a measure of the Company's cash position. The Company has net increase in cash of $949,215 in the period ended March 31, 2006. Net cash provided by operating activities were $903,188 for the first quarter of 2006.

Cash flows used in investing activities were $63,552 for the period ended March 31, 2006. Cash flows for the period ended March 31, 2006 were for the purchase/(transfer) of fixed assets.

Cash flows provided by financing activities were $40,346 for the period ended March 31, 2006. Cash flows for the period ended March 31, 2006 were $40,346 in proceeds from loans from shareholders.

The Company's liquidity position is fairly good. The operating income was sufficient to support all the expenses and investment needs of the Company for the period ended March 31, 2006.

Impact of Inflation

The Company believes that inflation has had a negligible effect on operations since inception. The Company believes that they can offset any inflationary increases in the cost of labor by increasing sales and improving operating efficiencies.

Period ended March 31, 2006 compared with period ended March 31, 2005

Revenue increased $1,268,786, or 1614%, to $1,347,403 in the period ended March 31, 2006 from $78,617 in the period ended March 31, 2005, primarily due to:

§ A strong increase in the sales of general study cards, including e-business income;

§ New tuition income generated from our education center which did not occur until later periods in 2005;

Cost of goods sold increased $468,113, or 1826%, to $493,751 in the period ended March 31, 2006 from $25,638 in the period ended March 31, 2005, primarily due to increases in sales volume and expansion in operations.

The 2005 cost of goods sold relative percentage to the total revenue remained about the same at 37%.

Operating expenses increased $128,942, or 282%, to $174,596 in the period ended March 31, 2006 from $45,654 in the period ended March 31, 2005, primarily due to:

§ Increase in staffing to support the operation; and the

§ Increase in scale of operation;

The operating expenses for the period ended March 31, 2006 is 13% of the total revenue, a large decrease from 58% for the same period in 2005, indicating our business is currently operating under a healthy profitable situation.

Net income increased $678,792, or a factor of almost 700%, to $679,952 for the period ended March 31, 2006 from $980 in the period ended March 31, 2005.

Page 20

ITEM 3. CONTROLS AND PROCEDURES

The Company's Chief Executive Officer/President and its Chief Financial Officer/principal accounting officer (collectively, the "Certifying Officers") are responsible for establishing and maintaining disclosure controls and procedures for the Company. Such officers have concluded (based upon their evaluation of these controls and procedures as of a date within 90 days of the filing of this report) that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in this report is accumulated and communicated to the Company's management, including its principal executive officers as appropriate, to allow timely decisions regarding required disclosure. The Certifying Officers also have indicated that there were no significant changes in the Company's internal controls or other factors that could significantly affect such controls subsequent to the date of their evaluation, and that there were no corrective actions necessary with regard to any significant deficiencies and material weaknesses.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEMS 5. OTHER INFORMATION

N/A

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

3.1 Articles of Incorporation are hereby incorporated herein by reference to Exhibit 3.1 to the Form SB-2 registration statement (File No. 333-101167) of the Company

3.2 Articles of Amendment Business Corporation are hereby incorporated by reference to Exhibit 3.2 to the Form SB-2 registration statement (File No. 333-101167) of the Company

3.3 Articles of Amendment Business Corporation filed November 17, 2004, changing the name of the Company from ABC Realty Co. to China Education Alliance, Inc.

3.4 Bylaws of the Company are hereby incorporated herein by reference to Exhibit 3.3 to the Form SB-2 registration statement (File No. 333-101167) of the Company

10.1 Product Commission Process Contract dated March 2, 2006, with Tianjin Huishi Printing Products Co., Ltd. is incorporated by reference herein to Exhibit 10.6 to the Form 10-KSB annual report of the Company for its fiscal year ended December 31, 2005

10.2 Employment contract with Liansheng Zhang effective February 21, 2006 is incorporated by reference herein to Exhibit 10.7 to the Form 10-KSB annual report of the Company for its fiscal year ended December 31, 2005

10.3 Consulting Agreement with Conceptual Management Limited dated March 20, 2006 is incorporated by reference herein to Exhibit 10.8 to the Form 10-KSB annual report of the Company for its fiscal year ended December 31, 2005

16.2 Letter dated March 16, 2006, of former independent certified public accountants, Jimmy C.H. Cheung & Co. is hereby incorporated herein by reference to Exhibit 16.1 to the Form 8-K/A current report of the Company filed on March 20, 2006

23 List of subsidiaries is incorporated herein by reference to Exhibit 23 to the Form 10-KSB annual report of the Company for its fiscal year ended December 31, 2006

31.1	Certification of Xi, Qun Yu
31.2	Certification of Wang, Chunqing
32	Certification of Xi Qun Yu and Wang Chunqing

(b) Reports on Form 8-K

None

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

China Education Alliance, Inc.

Date: May 15, 2006

By: /s/ Qun Yu Xi

Xi, Qun Yu
Chief Executive Officer and President

By: /s/ Chunqing Wang

Wang, Chunqing
Chief Financial Officer